

**Minutes  
State Board of Investment  
March 2, 2016**

The State Board of Investment (SBI) met at 11:20 A.M. Wednesday, March 2, 2016 in Room 106, Retirement Systems Building, St. Paul, Minnesota. Governor Mark Dayton, State Auditor Rebecca Otto, Secretary of State Steve Simon, and Attorney General Lori Swanson were present. The minutes of the December 2, 2015, meeting were approved.

**Executive Director's Report**

Executive Director Mansco Perry referred members to Tab A of the meeting materials and reported that the Combined Funds had outperformed its Composite Index over the ten year period ending December 31, 2015 (Combined Funds 6.7% vs. Composite 6.5%) and had provided a real rate of return of 5.6% above inflation over the latest 20 year period (Combined Funds 7.8% vs. CPI 2.2%).

Mr. Perry said that assets increased over the quarter by 2.0% (Combined Funds ending value of \$57.9 versus a beginning value of \$56.7 billion) due to positive investment returns that outweighed net outflows. The Combined Funds return matched the benchmark for the quarter (Combined Funds 2.9% vs. Composite 2.9%) and was 10 basis points higher for the year (Combined Funds 0.0% vs. Composite -0.1%). The Combined Funds also outperformed for longer time periods.

Mr. Perry reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stocks 5.9% vs. Domestic Equity Asset Class Target 6.3%), underperformed for the year (Domestic Stocks 0.3% vs. Domestic Equity Asset Class Target 0.5%), and had mixed performance over longer time periods. He said the international stock manager group outperformed its target for the quarter (International Stocks 3.8% vs. International Equity Asset Class Target 3.2%) and outperformed over longer time periods. Mr. Perry then stated that the bond segment outperformed its target for the quarter (Bonds -0.3% vs. Fixed Income Asset Class Target -0.6%) and for the year (Bonds 0.7% vs. Fixed Income Asset Class Target 0.5%) and also outperformed its target over longer time periods. He stated that the alternative investments detracted from performance for the quarter and contributed to performance for the year (total return of -1.9% and 1.4%, respectively). Mr. Perry concluded his report noting that, as of December 31, 2015, the SBI was responsible for managing slightly under \$80 billion of assets.

Mr. Perry referred members to Tab B of the meeting materials for the Executive Director's Administrative Report. He commented that the SBI is running below budget and that travel expenses had been included through the fourth quarter of 2015. Mr. Perry stated that the SBI received an unqualified clean opinion from the legislative auditor for fiscal year 2015. Mr. Perry also reminded members that the Fiscal Year 2015 Annual Report was distributed to them in January. Mr. Perry stated that Tab B contains the updated information for the divestment of Sudan and Iran holdings. Mr. Perry stated that there was currently no litigation involving the SBI.

As Chair of the Investment Advisory Council (IAC) Membership Review Committee of the SBI, State Auditor Otto gave an overview of the February 12, 2016 meeting. Members met to review applications for IAC membership. The terms of nine public members of the IAC have expired and there was one vacant public member position on the council. Eight of the nine members submitted an application for reappointment to the IAC and one did not. In addition, the committee received eight new applications for membership on the council. After review, the Committee made a recommendation which reads: **“The Committee recommends that the Board designate the following applicants as members of the Investment Advisory Council, with terms expiring in January 2019:**

**Mr. Jeffery Bailey**

**Mr. Kerry Brick**

**Mr. Dennis Duerst**

**Mr. Gary Martin**

**Mr. Malcolm McDonald.**

**The Committee recommends that the Board appoint the following applicants as members of the Investment Advisory Council, with terms expiring in January 2020:**

**Ms. Kim Faust**

**Ms. Susanna Gibbons**

**Mr. Morris Goodwin**

**Ms. Carol Peterfeso**

**Mr. Shawn Wischmeier.”**

Governor Dayton moved approval of the ten individuals for the terms as specified. State Auditor Otto seconded the motion. The motion passed unanimously.

The Retirement Plan Directors gave an update on the funding status of the plans and an overview of the importance and success of Minnesota’s pension assets. Dave Bergstrom, Executive Director of the Minnesota State Retirement System (MSRS), Laurie Hacking, the Executive Director of the Teachers Retirement Association (TRA), and Doug Anderson, the Executive Director of the Public Employees Retirement Association (PERA) each addressed the Board members on the results of each system’s recent experience study. The Retirement Plan Directors provided an overview of the key economic and demographic assumptions that drive the liability of those plans.

The Chair of the IAC, Jeff Bailey, briefly mentioned the presentation by alternative investment managers who specialize in Asian private equity and real estate investments. He went on to say that staff is reviewing the investment policy of the private assets and may begin considering investments outside of the program’s current U.S. and Western European opportunity set.

Mr. Bailey referred Board members to the Investment Advisory Council report, found under Tab D. Mr. Bailey reviewed the five alternative investment proposals brought to the February 16, 2016 IAC meeting. Two managers were existing managers: Apax Partners (Private Equity); Strategic Partners (Private Equity); and three were new managers, Angelo, Gordon & Co. (Real Estate); Carlyle Strategic Partners (Private Equity); and Rockpoint Group (Real Estate). Secretary of State Simon moved approval of all five recommendations in Tab D of the meeting materials, which reads: **“The Investment Advisory Council concurs with Staff’s**

**recommendation that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$150 million, or 20% of Apax IX, whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Apax Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Apax Partners or reduction or termination of the commitment.**

**The Investment Advisory Council concurs with Staff's recommendation that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$150 million, or 20% of Strategic Partners Fund VII, L.P., whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Strategic Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Strategic Partners or reduction or termination of the commitment.**

**The Investment Advisory Council concurs with Staff's recommendation that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of AG Realty Fund IX, L.P., whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Angelo, Gordon & Co. upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Angelo, Gordon & Co. or reduction or termination of the commitment.**

**The Investment Advisory Council concurs with Staff's recommendation that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of Carlyle Strategic Partners IV, L.P., whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Carlyle Strategic Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Carlyle Strategic Partners or reduction or termination of the commitment.**

**The Investment Advisory Council concurs with Staff's recommendation that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million, or 20% of Rockpoint Real Estate Fund V, L.P., whichever is less. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Rockpoint Group upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Rockpoint Group or reduction or termination of the commitment." The motion passed unanimously.**

Governor Dayton stated that he had received a request by the Break the Bonds Campaign to address the Board. The Board agreed to allow a brief presentation by Elsa Erickson, a student at the University of Minnesota, on the topic of responsible investment guidelines and divestment from Israel.

The meeting adjourned at 12:05 p.m.

Respectfully submitted,



Mansco Perry III  
Executive Director and  
Chief Investment Officer